

REGULAR BOARD OF TRUSTEES MEETING MINUTES

TUESDAY, JANUARY 25, 2005

.....
President Matthew B. Murphy, III called this meeting to order at 10:25 a.m. Other Board members present were Garrett Harbron, Katherine Humphreys, Elizabeth Ballard and Douglas Kinser.

TRF staff present included Dr. William E. Christopher, Robert Newland, Phil Barnes, Tom Davidson, Tom Abbett, Amy Maynard, Shelley Horner and Steffanie Rhinesmith. Also in attendance were Steve Moberly of IRTA, MaryBeth Braitman of Ice Miller, Rod Elcessor of ISTA and Ron Peyton and Ken Brunke of Callan Associates.

The Agenda was approved after adding health insurance discussion on the special business report.

Garrett Harbron moved to approve the agenda. Katherine Humphreys seconded the motion. The motion carried.

The minutes of the December 21, 2004 meeting were approved.

Katherine Humphreys moved to accept the Minutes. Elizabeth Ballard seconded the motion. The motion carried.

Ron Peyton discussed an update on Callan Associates. Callan has strong revenue growth, knowledge of investment management and fund sponsor industries. They also have strong core competencies including strategic advice, manager research, performance evaluation and education. Callan had two audits performed in the last year: SEC and San Diego. Ron feels that if an internal audit is deemed necessary it is TRF's discretion.

Callan presentation ended at 11:20 a.m.

Phil Barnes reported on fixed income. Most of the December economic statistics, indicated continued economic expansion. Although below the street estimates, the 157,000 non-farm payroll number was a positive economic sign and crude oil prices retreated from the highs. The stronger economy, combined with a weakening dollar, rising balance of payment and budget deficits, and a 25 basis point increase in the Fed Funds rate, should have been disastrous for December fixed income returns. Surprisingly, the result was additional yield curve flattening and bonds enjoyed a good month. The LBA returned +0.92 for the month. All fixed income sectors had positive returns with the best performing securities being long duration lower quality corporates. While all of TRF's fixed income managers continued to maintain a defensive posture, they produced positive returns.

Alliance's duration was 91% of the index but compensated by having 18% more corporates, the best performer, and 12% less mortgage backed securities which was the worst performing sector. Alliance under-performed the index by only 7 basis points for the month and has exceeded the index in all other reported time periods. Reams' duration was 84% of the index. However, the 21% commitment to corporates returned 1.24% allowing Reams to return 1.08% or 16 basis points better than the index for the month. Reams exceeded the index returns in all reported time periods and were the best performer for the calendar year. Taplin, Canida, & Habacht's duration was 81% of the index. A 50% allocation to the corporate sector returned 1.10% and resulted in a monthly performance of +0.87, which was only 5 basis points below the index. With the exception of December, Taplin has outperformed the index in all other reported time periods. Taplin is the best performer for three and five years.

For the month, total fixed income exceeded the index by 4 basis points, and other than a slight under-performance for five years, has exceeded the index in all reported time periods

Steffanie Rhinesmith reported on equities for the month of December. Domestic equity markets finished the year strong, leading to an annual return for the S&P 500 is rare, but right on average, at 10.88%. Mid cap stocks were the strongest performers this month, up 4%, while small cap stocks lagged, returning a still respectable 3%. Growth stocks finally broke trend and finished ahead of value, but not by a large margin, bringing the year to a close with value

stocks a full 9% better than growth in large stocks and 8% ahead in small. With the price of oil falling in December, energy was the only sector to post negative returns. Consumer discretionary and healthcare led the market higher.

In the large cap active portfolio, the largest deviations from the benchmark for any manager occurred in the large cap value portfolio. Earnest recorded the worst relative performance and PFR turned in the best. PFR was helped by their holdings in Altria, Interpublic Group, Tyco and Time Warner. Earnest suffered from poor stock selection in financials. For the year, Intech turned in the best performance relative to their benchmark, with 6% of the out-performance coming from their smaller cap size relative to the S&P 500 and 3% coming from their optimization process, for a total of 9% out-performance versus the S&P 500 Growth Index. The passive and enhanced large cap portfolios performed as expected. BGI's Russell 3000 Index fund under-performed the Russell 3000 index by 9 basis points, but this discrepancy relates to a \$75 million withdrawal TRF took early in the month, versus the actual performance of the fund. The large cap portfolio increased 3.4% in December, even with the S&P 500.

In mid and small cap portfolios, there were only minor deviations from the benchmark for all managers. Franklin returned 3.7%, just 49 basis points under the S&P 400. The total small cap portfolio returned 2.81%, 15 basis points under the benchmark. For the year, Aeltus turned in the worst relative performance of all our managers, with a 5.43% return, over 8% less than the Russell 2000 Growth Index. Although the benchmark finished in the top decile for the year, Aeltus' strategy should not produce such under-performance. A more thorough review is in order. The total equity portfolio gained 3.29% for the month and 12.7% for the year, out-performing the S&P 1500 Super Composite by 89 basis points for the year.

International markets also finished strong, once again out-performance U.S. markets. All returns continued to be boosted by the falling dollar, with Finland as the only country to experience negative returns for the month. Most markets rose by more than 3%, with the smaller countries of Greece, Austria and Italy rising 8% or better. As in the U.S. energy was the only sector with negative returns, while financials posted the highest returns. Bank of Ireland turned in their second month of positive performance versus the benchmark, almost pulling even for the quarter. Overall, the international portfolio gained 4.53%, 14 basis points than the benchmark. The total equity portfolio rose 3.56% in December and 14.21% for the year, just missing the return of a weighted benchmark for the month, but beating it by 67 basis points for the year. The total fund returned 2.49% for the month, just under the weighted benchmark, but also out-performing for the year 10.29% versus 9.59% for the benchmark.

Bob Newland reported no new commitments for private equities during the month.

Phil Barnes presented the Securities lending report. The total December securities lending income was \$340,372, which is an all time record month for lending income. Reams, with \$182m, accounted for 53% of the total monthly income. Collateralization for US loans was 102% and 104% for international loans. At 18.27% of the total borrowed, Goldman, Sachs was the largest borrower.

Garrett Harbron moved to accept the investment reports. Douglas Kinser seconded the motion. The motion carried.

Tom Abbett presented the Expenditures report for the month of December 2004.

Katherine Humphreys moved to accept the Expenditures. Douglas Kinser seconded the motion. The motion carried.

Shelley Horner presented retiree payments for the month of February 2005.

Garrett Harbron moved to accept the payments. Elizabeth Ballard seconded the motion. The motion carried.

Bob Newland updated the Investment Committee Meeting. Richard Deeter, Mac Nickey, and Jim Kearney of Northern Trust discussed the trade execution analysis (a recent product development) and the securities lending and commission recapture programs. These latter two programs have produced over \$5.3 million since their inception in 2003.

Steve Harding and Barney Buschemi of Independent Fiduciary Services joined the meeting by phone to discuss a potential review by their firm, of our investment consultant (Callan Associates). The committee will discuss this further at tomorrow's board meeting.

Steffanie and Ken presented the Global Tactical Asset Allocation (GTAA) manager search profile. The announcement for this search will be posted in the classified advertisement section of the February 7, 2005 issue of *Pensions & Investments Age*.

Finally, Bob and Bill apprised the committee about HB 1779, which requires the fund to provide daily valuation of the Annuity Savings Account by June 30, 2006.

The board discussed an Independent Fiduciary Search (IFS) on Callan Associates. TRF looked into the pricing and services provided for this audit. A limited scope audit would be \$25,000. The board agrees an audit should be performed and would like to move forward after defining the costs and scope of the services provided.

Douglas Kinser motioned to move forward with IFS to perform an audit on Callan Associates by defining costs and scope of services provided. Garrett Harbron seconded the motion. The motion carried.

Dr. Christopher presented the Administration and Personnel Committee Report and Director's Report. Anthem presented the Health Insurance Contract fee schedule for 2005. Dr. Christopher recommends moving forward with the contract as it was presented last meeting.

Garrett Harbron moved to approve the Health Insurance Contract as it was presented last meeting. Katherine Humphreys seconded the motion. The motion carried.

Dr. Christopher spoke of seminar outsourcing on retirement workshops, which was discussed last meeting. The board consensus is not to move forward on this 3rd party administrator for the retirement workshops at this time.

Dr. Christopher handed out the preliminary CEM report. He pointed out on the last page TRF had the second lowest cost and above average services.

Dr. Christopher presented a call center memo, which showed an improved call center from 2003 to 2004.

Mary Beth Braitman discussed the bill status report. There are several bills affecting TRF which include COLA, retirement insurance bills, improved government rule making and fiduciary function and responsibility of adding new TRF trustees.

The next meeting was scheduled for March 1, 2005 at 10:00 a.m. The Investment Committee meeting will be February 28, 2005 at 3:00 p.m.

Being no additional business, the meeting adjourned at 11:55 a.m.